

Service Date: May 6, 1999

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Application)	UTILITY DIVISION
Of the Mountain Water Company for)	
Authority to Increase Rates and Charges)	DOCKET NO. D98.5.104
For Water Service to its Missoula Division)	ORDER NO. 6069c

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ORDER APPROVING STIPULATED RATE SETTLEMENT

FINDINGS OF FACT

1. On May 11, 1998, the Montana Public Service Commission (Commission) received an application from Mountain Water Company (Mountain Water) for authority to increase rates and charges for water service in its Missoula Division serving Missoula, Montana. Mountain Water computed its revenue requirement for test year 1997 to be \$10,124,011 compared with revenues at present rates of \$8,518,339. The total requested percent increase is for \$1,605,672 in annual revenues, or an 18.86 percent increase. Approximately two-thirds of the requested rate increase was attributable to new mains, before any Stipulation. In addition to main replacements, Mountain Water installed connecting mains to the airport area and East Missoula. Prior to the construction of those mains, the airport and East Missoula were stand-alone systems. Increases in wage and office expense were the biggest components of the increase in operation and maintenance expense. Montana Consumer Counsel (MCC) and the City of Missoula (City) intervened as parties.

2. Concurrent with this filing for a permanent increase in rates, Mountain Water filed an application for an interim increase in rates of 16.76 percent, for a revenue increase of \$1,428,086. The interim rate request included a significant increase in booked expenses of the utility and additional adjustments not accepted in previous Commission orders. Among these adjustments were projected increases in insurance expenses, capital improvements and related

expenses, main office expenses and power cost increases attributed to a Montana Power rate increase.

3. During June and July of 1998, staff of the Commission and the Montana Consumer Counsel (MCC) conducted an audit of the books and records of Mountain Water and its parent company, Park Water Company. After completion of that audit, Mountain Water filed an amended interim rate request of 10.62 percent on August 10, 1998, for an annual revenue increase of \$910,920 to be implemented by an increase of 11.04 percent applied to the present rates for flat and metered customers. This request was \$517,166 less than the original interim rate increase request, due to corrected calculations of present revenues, a lower rate of return, and a true-up in insurance and benefits.

4. Mountain Water filed a second amended interim request on August 19, 1998, proposing an interim increase of 9.99 percent, for a revenue increase of \$857,386. The second revised interim proposal is \$53,534 less than the first revised interim or \$570,700 lower than the original request. These additional reductions were achieved through a purchase power adjustment for flat rate sprinkling, a change in workers compensation rate and a reduction due to a savings in travel. Mountain Water requested that the interim apply only to the flat rate and metered customers, and not to the Public and Private Fire Protection rates. The original application increased the rates for Public and Private Protection by 8.15 percent and 6.59 percent, respectively. Mountain Water proposed implementing the second revised interim increase of 9.99 percent by applying an increase of 10.39 percent to flat rate and metered customers' present rates.

5. For interim purposes, the Applicant requested that the Commission authorize an overall rate of return of 9.65 percent, recognizing Mountain Water's most recent cost of debt capital of 8.92 percent and a cost of equity of 10.25 percent.

6. On September 9, 1998, the Commission approved Interim Order 6069b granting Mountain Water interim relief of \$857,386 on an annual basis. The Commission found that the difference between what Mountain Water earned and what it was entitled an opportunity to earn constituted an income deficiency. The Commission found that deferring rate relief pending a final order might adversely affect the utility's financial condition.

7. On February 26, 1999, the intervening parties and Mountain Water executed a Stipulation for consideration by the Commission, proposing a final rate increase of \$907,450 per

year. This amount was \$50,064 higher than the amount granted in the interim. The primary differences between the rate increase sought by Mountain Water in its Application and that set forth in the Stipulation are rate of return and capital structure; payroll expense; Senate Bill 28 expense and revenues. Each of the parties to the Stipulation agreed that the final rates proposed in the Stipulation are just and reasonable. The Stipulation did not address the request of the City to establish developer fees and require mandatory metering. Mountain Water and the City have agreed to discuss the City's proposals further and to address them in Mountain Water's next general rate case for the Missoula Division.

8. On March 4, 1999, the Commission held a public hearing in Missoula, Montana, to consider the Stipulation. Mountain Water presented the Stipulation and the City and MCC stated their acceptance. Opportunity for public comment was provided. No one from the public spoke.

9. The Stipulation contains monthly rates for a typical residential and commercial customer as follows:

Metered	5/8 x 3/4, 15 Ccf	28.34
Flat	Residential – 4 rooms, 1 bath	29.18
Flat	Commercial	31.26

These rates are lower than the original application, which suggested monthly bills for a typical residential and commercial customer as follows:

Metered	5/8 x 3/4, 15 Ccf	30.34
Flat	Residential – 4 rooms, 1 bath	31.37
Flat	Commercial	33.36

10. Upon review and consideration the Commission adopts the Stipulation, finding that the rates and charges in the Stipulation are just and reasonable. The Commission authorizes Mountain Water Company, on a final basis, to implement a general rate increase in the water rates for its Missoula Division in the amount of \$907,450.

12. The Commission, by Administrative Notice, adopts Mountain Water's filing of the Cross-Connection Program, N99.2.19, which has already been approved by the Department of Environmental Quality.

CONCLUSIONS OF LAW

1. Mountain Water Company is a public utility furnishing water service to customers in the Missoula, Montana area. As such, it is subject to the supervision, regulation and control of the Commission pursuant to Title 69, Chapter 3, Montana Code Annotated (MCA).

2. The Commission concludes that the approval of the stipulated rate increase as set forth in this Order is just and reasonable.

3. The Commission adopts the Cross-Connection Program, N99.2.19, by Administrative Notice.

ORDER

NOW THEREFORE, IT IS ORDERED THAT:

1. Mountain Water Company is hereby granted authority to implement a general rate increase, on a final basis, for its customers in Missoula, Montana, designed to generate additional total annual revenues in the amount of \$907,450.

2. Mountain Water Company shall file revised tariff schedules to all services as outlined in the Stipulation. Tariffs shall be effective for services on or after May 4th, 1999.

3. Mountain Water Company's Cross-Connection Program is hereby adopted by Administrative Notice. Mountain Water Company shall file tariffs for the implementation of this program and shall become effective upon approval.

DONE IN OPEN SESSION AT HELENA, MONTANA THIS 4th day of May, 1999,
by a vote of 5 - 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

DAVE FISHER, Chairman

NANCY MCCAFFREE, Vice Chair

BOB ANDERSON, Commissioner

GARY FELAND, Commissioner

BOB ROWE, Commissioner

ATTEST:

Ann Purcell
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See ARM 38.2.4806.